of 1870–71 entrained in its wake a period of financial depression and a severe crisis in the world of finance. That was the very time when German financiers and economists began to develop and apply the cartel idea to Germany's industry and trade with such marked success. If it is true that history is the mentor of life, the co-operative system of organization underlying the German cartels may, at the conclusion of the present war, once more serve as a preventive factor in safeguarding business conditions. It is not improbable that at the moment when peace is concluded the present exorbitant prices of raw materials will drop and that all values will more or less collapse. Then the cartel organizations may be expected to make their strength felt and to act as parachutes in preventing economic disaster on a large scale—to preserve stability in general, and thus to render to the country at large, and to Germany's industries in particular, a very important service.

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WASHINGTON NOTES

THE FIRST YEAR OF THE FEDERAL RESERVE SYSTEM

The federal reserve system has completed the first year of its existence —November 16, 1915, being the anniversary of the opening of the banks. The year has not, however, been a year of complete operation, owing to the fact that it was necessary to open the banks promptly in order to relieve the financial stringency of 1914. It was impossible to issue at once complete regulations governing the conduct of the banks on a uniform footing. The process of preparing and issuing these regulations, and of securing uniform action, consumed several months, and a fair estimate of the first year's work will recognize the fact that only during the latter part of that time can the banks be said to have been really operative. The unusual ease of money throughout the whole year, the large release of reserves which occurred simultaneously with the opening of the banks, owing to the reduction of reserve requirements, and other conditions, would in any event have tended to prevent the banks from attaining their full scope during the first twelve months, even if they had been fully organized for work at the outset.

Certain definite results have, however, been unquestionably accomplished, as follows:

First, the new banks have taken a long step toward securing the standardization of commercial paper. There has also been a very

decided growth in the practice of making satisfactory statements of condition on the part of commercial concerns. Member banks have been steadily encouraged to keep a part of their assets in liquid and rediscountable condition, and have succeeded in so doing.

Secondly, through the careful use of the power to grant trustee and executor powers a premium has been placed upon sound banking, and many banks have found that they could not receive this recognition of their responsibility without altering business practices of doubtful wisdom, and without eliminating questionable paper from their assets.

Thirdly, many banks which were in need of assistance have been directly aided through the rediscount policy of the reserve banks, and have been enabled to restore themselves to a solid and satisfactory condition.

Fourthly, there has been developed the beginning of a system of bankers' acceptance business which is already taking strong root, and is likely to expand rapidly as the years go by.

Fifthly, a system of clearing and collection has been inaugurated which has already had valuable indirect as well as direct results, and which furnishes the basis for an ultimate standardization of the check and deposit system throughout the country.

Sixthly, it is not too much to say that, under the leadership of the federal reserve system, more has been done toward bringing about a recognition of the essential principles of banking and credit than had been accomplished during the many years of currency and banking reform agitation.

These are probably to be reckoned among the more outstanding and obvious accomplishments of the reserve system during the past year. They are each and all easily recognizable, and in themselves constitute an eminent justification of the work done in establishing the system.

The general policy of the system during the year has been that of conservatism and avoidance of stimulus to an already plethoric money market. Nevertheless, what has thus far been done has been effectual in rendering stable and more uniform rates of discount prevalent throughout the country. It has established throughout each federal reserve district a definitely known rate of rediscount, published each week and available to all member banks upon exactly the same condition. The effect of this change has been important. It has tended to bring about the standardization of rates by city banks on a level substantially similar to that fixed by the federal reserve bank in the district in which the rate was offered. It has thus given to borrowing banks a standard of com-

parison which in the past they have never possessed. They now know that by going to the federal reserve bank with a given carefully described kind of paper they can get a thirty-day accommodation at, say, 4 per cent.

Thus far nothing effectual has been done in regard to the creation of a general clearance system, although in each district the beginnings of such a system have been introduced, while a system of settling items between federal reserve banks by means of the Gold Settlement Fund at Washington has been successfully inaugurated.

Open market operations and transactions in foreign exchange have still to be undertaken. In spite of the fact that the first year has afforded no severe or drastic test of the capabilities of the system, and in spite of the further fact that the immense labor of putting the law fully into effect has not yet been completed, general comment upon the year's results has been almost entirely favorable. There can be no doubt that perhaps the greatest contribution of the system is the better state of confidence on the part of the community and the more courageous outlook upon the banking future that the new institutions have inspired.

TAXATION OF CORPORATIONS

The Bureau of Corporations (now a part of the Trade Commission) has just issued a final section of its report on the taxation of corporations, covering the methods in vogue in the southern and southwestern states.[1] Its purpose is to describe the methods employed in each state in taxing manufacturing, mercantile, transportation, and transmission corporations and such securities as they may issue. The procedure in each state is presented in brief general outline followed by a statement of constitutional provisions relating to taxation, and by a digest of the statutes as interpreted by judicial decisions. In each case a statement of financial results of the tax system, in so far as revenue is concerned, is afforded. It is found that, in general, the total taxes collected annually from all sources for purely state purposes (including the whole United States) is about $300,000,000 a year. This, however, does not include the amounts paid for county, municipal, and other local purposes. Of this sum railroad, banking, insurance and certain other companies contribute about 40 per cent, or $120,000,000.

[1] *Report of Commissioner of Corporations on the System of Taxing Manufacturing, Mercantile, Trausportation, and Transmission Corporations* . . . . , Washington, D.C., 1915.

The methods of taxing corporations are found to differ with each state and with the various classes of corporations, notwithstanding that the methods of taxing individuals are practically the same throughout the states. It appears that in a number of states it is now sought to supply practically all state revenue by taxing certain classes of corporations. This is largely the case in New Jersey, Delaware, Vermont, Connecticut, Pennsylvania, and California. In the South and Southwest, which are especially studied in the last section of the report, a system of license or occupation taxes is levied upon corporations and individuals alike to cover practically all lines of business. Throughout nearly the whole body of states, there is almost an entire lack of uniformity in classes of taxation, methods of assessment, modes of collection, and ways of selecting administrative boards of directors or officials. This makes it virtually impossible to do more than give a very rough general classification of the tax systems of the states, inasmuch as complete classification would involve the use of almost as many classes of taxation as there are states. A general tabular comparison prepared by the Bureau of Corporations, for the purpose of showing the total state taxes as distinct from local, with the amounts and percentages contributed by certain specified sources of taxes, for forty-eight states and the District of Columbia, indicates that the taxes paid by corporations in a representative year constituted 40 per cent of the aggregate, while the general property tax yielded 35 per cent, the inheritance tax 9 per cent, liquor taxes 7 per cent, and miscellaneous sources 9 per cent.

This volume with its preceding parts is probably the most extensive and useful collection of facts regarding state methods of taxation of corporations that has yet been issued.

STATE CONTROL OF CORPORATIONS

The Federal Trade Commission has just made public a report of the Commissioner of Corporations on state laws concerning foreign corporations[1] in which is presented a compiled comparison of the conditions under which a corporation, organized in another state, may engage in business in the several states.

Each state has its distinctive laws regarding the admission to that state of corporations elsewhere organized. This has resulted in very wide diversity in the legal prerequisites for, and conditions pertaining to, the doing of business by corporations in states other than the one

[1] *Report of the Commissioner of Corporations on State Laws Concerning Foreign Corporations*, Washington, 1915.

where they may have been originally chartered. The data presented are of considerable value in connection with the study of the trust question and of interstate operations generally. They will also be of decided service in connection with the movement for uniformity in state legislation relating to corporations.

In a general way, the right of a foreign corporation to engage in business in a state other than that in which it originated depends solely upon the law of that other state, except where the federal nature of its business gives it a special right to engage in interstate trade. Without such right, except by comity of other states, a foreign corporation can have no legal existence, nor can it exercise the functions and privileges conferred by its charter, outside of the boundaries of the sovereignty by which it was created. Comity will generally be extended so as to allow a foreign corporation to exercise any powers with which it may be endowed by charter, unless such powers are repugnant to the policy, or injurious to the citizens, of the state it seeks to enter. Such corporations, having no absolute right of recognition, must depend upon the assent of other states for recognition and for the enforcement of contracts therein. And since the state is limited only by certain provisions of the federal Constitution, it follows that such assent may be granted upon any terms a state may impose within such limitations. In the absence of some express limitations in the Constitution of the United States, the power of a state over foreign corporations is absolute.

Next to the general question of the right to do business, perhaps the most important matter affecting the corporation is the definition of the term "doing business," and this definition is the basis of legal and judicial interpretation in practically all states. In most states, the filing of specific documents is required, such documents attesting the charter or articles of incorporation, the principal place of business, the nature of the business to be done, the names and addresses of officers and directors, and the like. The comparative study shows that one of the commonest requirements is that there shall be an agent representing the corporation within the state where it is doing business, this being intended to provide a means of getting service on the foreign corporation within the state so as to bring it within the jurisdiction of the local courts. In a number of states priority of claim among creditors is given to the citizens of the state as against outside creditors, in so far as relates to the property of the corporation within that state. In some cases the power of foreign corporations to hold real estate is limited by law, and in some the power to acquire property through eminent domain is forbidden. Outside of

these basic requirements, most of the legislation deals with initial filing fees, license taxes, permits, etc., and the revocation of the same, the filing of annual reports, and the infliction of penalties for doing business without authority.

The report devotes considerable attention to the constitutional phases of the right of corporations to do business in other states. Various cases have arisen wherein foreign corporations have successfully invoked the protection afforded by that clause of the Constitution which prohibits a state from passing a law impairing the obligation of contracts; and because of the clause of the Constitution which vests in Congress exclusive power to regulate commerce, it is well settled that commerce among the states, carried on by corporations, is entitled to the same protection against state exactions as when carried on by individuals. While corporations are not citizens within the clause of the Constitution guaranteeing to citizens in each state all privileges and immunities of citizens in the several states, they are deemed to be citizens within the meaning of the clause of the Constitution relating to the judicial power of the United States. By reason of this provision, the laws of a state which attempt to make the right of a foreign corporation to do business in that state dependent on the surrender of its right to resort to the federal courts are void.

FOREIGN TRADE SITUATION

The foreign trade situation continues to be the factor of chief importance in connection with banking conditions in the United States, several developments of first-rate importance having occurred since the beginning of the present fiscal year: (1) Thus far (July 1 to November 1) the surplus of exports over imports for the fiscal year has amounted to $577,578,380. To offset this and further accruing balances there has been negotiated in the United States a loan to the allied English and French governments amounting to $500,000,000; while other loans formed within the same period probably aggregate $100,000,000. At present the weekly export balance in favor of the United States is averaging in the neighborhood of $40,000,000. (2) The excess of gold imports over exports of gold from the United States during the fiscal year (July 1 to November 1) has aggregated $192,291,778. (3) There has been an expansion of deposit liabilities of national banks amounting, on the date of the last statement required by the Comptroller of the Currency, to $1,041,947,292 over the corresponding figures a year earlier. (4) As is well known, a considerable reduction in the average required reserves

of national banks was effected when the federal reserve system was organized, and this release of reserves has furnished the basis for the expansion of loans and deposits already referred to. It is generally overlooked, however, that a number of states, including New York, reduced the reserves of their state banks at the same time the reserves of member banks were reduced, and in most cases this action was taken without applying any accompanying requirements to the effect that in order to get the advantages of reduction the state banks must become members of the reserve system. This has resulted in a very large release of reserves without the establishment of any correlated element of strength on the part of the banks thus relieved of the older and more stringent requirements.

In consequence of these conditions, and of others dependent upon them, it is now plain that a very large expansion of credit is under way. The banks, in other words, are engaged in financing an unprecedented export movement, and this process is being developed upon a basis of cash, plus the added gold supply obtained through importations, under the favoring conditions furnished by the lowering of reserve requirements already referred to. While figures giving the precise details are not now available, it is generally admitted that large sums are incidentally being employed in providing means for the active stock speculation that has been in progress in New York and other cities. The element of conservatism and strength in the situation is supplied by the federal reserve system, which has not permitted its resources to become largely involved in the process of expansion, the total invested funds being, at the middle of November, only $78,000,000. This leaves the system in a position of strength should it be called upon to meet sudden or unexpected demands for aid. That such demands will make themselves positively felt in the event of the sudden termination of the European war, accompanied by a corresponding cancellation of orders and a reduction in the activities of business as a consequence, is assured. An analysis of the business situation shows that, in many instances, corporations engaged in the manufacture of munitions have received orders likely to keep them busy for some time in the future, independent of the date of the return of peace. Nevertheless, the cessation of hostilities will admittedly have a powerful influence in curtailing exportations, and thus indirectly react upon domestic business in a great variety of ways. This fact is recognized by the most far-sighted members of the business and financial community, and gives to the present business of the United States a peculiarly temporary and transitory character, since it is so widely

admitted that the course of events must necessarily depend upon factors entirely outside of the control of those who are engaged in active operations. One effect of this recognition is to limit very materially the amount of new investments in fixed capital, except where such investments are particularly required (and paid for) as a feature of contracts for emergency war orders received from abroad. For this reason the prosperity now to be observed is noticeably less in those lines of trade which are more directly dependent upon activities in investments of fixed capital.

A NEW ERA IN NATIONAL FINANCE

National fiscal conditions have now reached a point which emphasizes the fact that the United States, with the new year 1916, will enter upon a fresh era in the development of its policy of public finance. The "free balance" in the Treasury, upon the new basis of statement put into effect in October to November, 1915, amounts, indeed, to more than $100,000,000; but while computations may differ somewhat as to detail, it is clear that the old system of stating the situation would show very little in the way of balance. Whether the amount so stated under the old plan would be a few millions more or less is a matter of minor importance, since clearly the free balance, as thus computed, would be exhausted on or before January 1, 1916. At the same time, the announcement of the national administration that it intends, subject to the approval of Congress, to embark on a policy of enlarged army and navy expenditures, computed by some to cost as much as $300,000,000 annually, again emphasizes the deficiency between revenues and expenditures. It may be conservatively figured that, even if the present tariff on sugar and the present stamp taxes should be retained, the deficit for the fiscal year ending June 30, 1916, will be about $100,000,000. It is entirely possible that the Treasury Department might go through the fiscal year without getting funds from any new source, since the amounts formerly carried under other heads, but now included in the "general fund," are not likely to be drawn upon for other purposes, and so can be applied to the meeting of current necessities, while new appropriations for military and naval outlay are not likely to become a draft on the resources of the government before the beginning of the new fiscal year. Plainly, however, the situation is such as to call for a reorganization of taxation even without the new army and navy program. Two courses present themselves: the imposition of far-reaching new taxes, or a resort to an issue of bonds. Either course, now as always,

presents political difficulties and dangers, to say nothing of the economic problems involved in it. As a matter of fact, the resort to a bond issue could not be relied upon as the sole means of meeting the present situation, inasmuch as the continuance of the sale of bonds to supply the annual needs of the army and navy program would necessitate taxation in order to assure investors of the ability on the part of the Treasury to meet increased charges. While there is at present a decided improvement in tariff receipts, there is little or no prospect that these receipts will soon amount to anything like their former figures, or be able to furnish more than a very moderate proportion of the funds now needed for the purposes already indicated. Opposition to a general advance in the tariff would, in fact, put such a course practically out of the question, even if it were to be sanctioned on other grounds. The nation is thus apparently being driven toward a thoroughgoing application of the income tax, which, thus far, has been little more than ornamental, last year's yield having been but $40,000,000; an extension of the indirect taxes (stamps, etc.), included in the so-called War Revenue act of 1914; or a new development of the plan of direct taxation, as by the use of an inheritance tax. The facts in the case are thus practically pointing to a transition in federal finance from the past exclusive reliance on indirect taxation to a condition in which there will be very large reliance (perhaps increasing from time to time) upon direct taxation of incomes, inheritances, etc. This transition, moreover, is one that is likely to be permanent, inasmuch as even the restoration of the tariff to its old figures would not suffice to meet the cost of a large new military and naval program. Heavy direct taxes, accompanying military and naval preparation, are thus the indicated characteristics of the new period of federal finance.